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Gairdner, Charles

Answers to certain of the  
questions proposed...

[Glasgow]

[1866?]

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Answers to certain of the questions proposed  
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on the subject of banking and currency [Glasgow,  
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ANSWERS

TO

CERTAIN OF THE QUESTIONS PROPOSED BY THE CONSEIL SUPÉRIEUR DU  
COMMERCE DE FRANCE ON THE SUBJECT OF

BANKING AND THE CURRENCY.

ON PAPER MONEY.

16. *What is the Utility of Paper Money?*

It is understood that the term "paper money" is intended to include Bank notes and any other forms of obligation, bearing no interest, and payable to Bearer on demand.

Paper money has its origin and chief utility in its superior convenience as compared with the coin which it represents.

It has also an important utility in so far as by diminishing the quantity of coin in circulation it economises capital.

It confers a third advantage in respect that the amount of money in circulation in any country being a fluctuating quantity, an increase or diminution in the amount of paper money in circulation may take place without disturbing the stock of coin which forms the Reserve.

17. *Is the part played by Paper Money tending to become very important?*

There is no particular tendency operating in Great Britain to make paper money more important.

18. *Is it by Issues of Notes Payable to Bearer at sight, or by means of Transfers, Current Accounts, Cheques, &c., that Credit has a tendency to extend?*

It is *not* by issues of notes payable to Bearer at sight, nor by any other form of obligation payable on demand that credit has a tendency, to any appreciable degree, to extend.

The tendency of credit to extend arises mainly through the commitments of merchants, manufacturers, contractors, and others, the settlement or accomplishment of whose transactions is postponed.

19. *Can the employment of Paper Money take an indefinite extension? If not, in what limits shall it be confined?*

Paper money cannot take an indefinite extension. The amount of money (whether paper or coin) at any time in circulation is the aggregate amount contained in the pockets and tills of the whole people. This may be more or less according to circumstances: but as long as the paper is convertible into the coin which it represents, each individual will regulate for himself the amount retained for his own purposes; and it follows, that the aggregate amount in circulation is regulated by the requirements, or the convenience, or, it may be, the whims, of the community at large.

ON THE CONDITIONS OF A GOOD PAPER MONEY.

20. *Under what conditions does the employment of Paper Money present no inconveniences?*

The only condition that is at once essential and universal is that it be convertible into coin at the will of the holder. Other regulations may be required for the safety and convenience of particular communities, but these must be ascertained with reference to the circumstances of each case.

21. *Is the Constant Convertibility of Notes indispensable?*

Undoubtedly so.

22. *Does the unity of the Bank Note promote the circulation of it?*

The unity of the Bank note involves the supposition of there being only one Bank of issue. This again of necessity involves that non-issuing Banks shall keep a stock of notes procured from the single Bank of issue. As this would not be necessary were all Banks free to issue notes (as is the case with the existing Banks in Scotland), it follows that the "unity of the Bank note" increases the *apparent* circulation by the amount of the note reserves of the non-issuing Banks.

With this explanation, reference is made to answer 19 for the principle which regulates the amount of notes in circulation.

23. *What are the inconveniences and advantages of the plurality of Banks, whether general or of limited circumscription?*

This question appears to be in other words: "What are the inconveniences and advantages of Freedom as compared with Monopoly?"—for the non-plurality of Banks *is* monopoly.

In reply, it may be stated that the arguments in favour of Freedom in Trade apply equally to Freedom in Banking, and, further, that in England and Scotland the principle of Freedom in Banking is now all but universally accepted. A difference of opinion exists as to the propriety of allowing all Banks to issue notes, but in Scotland the right to do so is regarded as an integral and important part of the business of Banking.

The advantages conferred by the system of Banking pursued in Scotland are seen—

(1) In the facilities afforded to the public by the establishment, throughout even the most remote districts, of Branch Banks. At present there are nearly 700 Banking Offices in Scotland, emanating from 12 parent Banks.

(2) In the economy of Capital so effected,—it being the universal practice of people even of the most moderate means to lodge their money with the Banks. The Cash Deposits in Scotland approach 60 Millions Sterling. The population is about 3 millions.

(3) In the allowance of Interest by the Banks on all the Money held by them from the public.

(4) In the advantages afforded to the industrious classes throughout the country by means of Loans and Advances.

(5) In the perfect security afforded to the public,—there never having been an instance of a Joint-Stock Bank in Scotland failing to pay its debts in full; and the cases in which, in former times, the failure of a Private Bank involved loss were extremely rare.

(6) In the manner whereby, *through being free*, the Banking Institutions of the country have been able to adapt themselves to the changing circumstances of the country. The Private Banks, which formerly conducted a large proportion of the business of the country, had paid-up Capitals of small amount and a very limited number of partners. These have all now been absorbed into Joint-Stock Banks, the amount of whose paid-up Capitals varies from £100,000 to £2,000,000, and each Bank includes in its list of partners from 500 to 1500 individuals. In this way the security afforded to the public has kept pace with the demands of a constantly increasing commerce.

As opposed to these advantages, it is not known that there are any inconveniences to state arising out of the plurality of Banks.

#### ON THE ESTABLISHMENTS WHICH ISSUE PAPER MONEY.

26. *Is there advantage or inconvenience in separating the Issue department from the Discount department?*

There does not appear to be any sound principle to justify the separation in question, and the experience of its working by the Bank of England has not proved it to be of any practical advantage, but, on the contrary, it has created on many occasions serious complications.

27. *If the Notes of the Bank of France were made a legal tender, as is the case of those of the Bank of England, would it have the effect of promoting the circulation of them?*

No. Refer to answers 19 and 22.

28. *What number of signatures ought a Bank to require for its true security in the Discount of Bills?*

Security is not to be ensured by the number of signatures to a Bill, but by the exercise of a sound discretion as to the parties and the circumstances of each case.

29. *Ought the Issue of Notes to be limited? Ought the Issue to be proportionate to the Metallic reserve of the Capital?*

(1) No,—referring to answers 19 and 22.

(2) It is not correct to say that the issue should be proportionate to the metallic reserve of the Bank,—but rather that the metallic reserve ought to be proportionate to the *character* and *amount* of the liabilities of the Bank, whether upon notes or upon other forms of obligation, and this is a mode of stating the case not sufficiently attended to and considered.

## ON BANKING OPERATIONS.

30. *At what level ought to be maintained the Metallic Reserve of the Bank of France in order to secure the Convertibility of the Notes?*

There is no fixed rule can be stated in answer to this question. Every Bank ought to know the character and amount of its own liabilities,—keeping constantly in view that the deposits equally with the notes are payable in coin, and that in times of pressure a demand for gold and silver is more likely to arise from a withdrawal of deposits than from a diminution of notes in circulation.

It is also to be kept in view that Paris and London are the natural Bullion marts of France and England; because, in Paris and in London the exchange operations with foreign countries are chiefly conducted. It follows that the Banks in these cities (and notably the Bank of France and Bank of England) hold the chief Bullion reserves of all the Banks in the two countries, and these reserves are accessible to any Bank which holds the obligations of the Bullion-holding Banks.

The *character* therefore of the liabilities of Banks in Paris and London differs essentially from that of the Country Banks—from whom coin or Bullion, in large quantity, is seldom demanded,—and the metallic reserve that may be adequate and proper for the one forms no guide to that which is essential to the safety of the other.

31. *What are the causes which tend to reduce or augment the Metallic Reserve, and the means to be employed to maintain the level of it?*

The causes that affect the metallic reserve may be classed under three heads:—

- (1). The natural increase or diminution of gold and silver coin in active circulation.—*i.e.*, in the pockets and tills of the people.
- (2). Hoarding. This may be either from ignorance or from want of confidence in the Banks.
- (3). Receipts from or payments to Foreign Countries.

The means capable of being employed by Banks to counteract these influences, are as regards the—

- (1). The issue of Bank Notes of such denomination as will meet the particular demand of the time. The prudence, however, of having recourse to this expedient must always be considered with reference to other circumstances besides the question of the metallic reserve.
- (2). The removal of the causes of Hoarding in so far as it may be possible to do so.
- (3). The raising or depressing of the rates of interest and discount.

32. *What is the part played by, and the destination of, the Capital of the Bank? Ought the Capital to be increased? What would be the effects of the increase?*

The Capital of the Bank is a fund contributed by those who are to enjoy the profits of the business, as a protection or guarantee to the Creditors of the Bank.

Assuming that the Capital is sufficient in amount to secure entire confidence in the stability of the Bank, there is no advantage to be gained by its being increased.

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*Answers*

*To certain of the Questions proposed by  
the Conseil Supérieur du Commerce  
de France on the subject of  
Banking and the Currency.*

BY

CHARLES GAIRDNER,

*Manager of the Union Bank of Scotland, Glasgow.*

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